

Message Text

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PAGE 01 QUITO 08846 212047Z
ACTION ARA-10

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INT-05 XMB-02 OPIC-03 AID-05 IGA-02 PM-04 NSC-05
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C O N F I D E N T I A L QUITO 8846

E.O. 11652: GDS
TAGS: EINV, ENRG, PFOR, EC
SUBJECT: GULF NEGOTIATIONS

REF: (A) QUITO 8752 (B) STATE 306717

1. I CALLED ON ADMIRAL POVEDA LAST NIGHT TO EXPRESS MY CONCERN OVER THE POSSIBILITY OF A TAKEOVER OF GULF'S OIL BY CEPE AS OF JANUARY 1. I TOLD THE ADMIRAL THAT WHILE I WAS QUITE CLEAR THAT THE POLICY OF THE SUPREME COUNCIL WAS NOT TO TAKE OVER GULF AS OF JANUARY 1 AND TO LET THE NEGOTIATIONS RUN THEIR COURSE, THE PEOPLE AT CEPE WERE TELLING GULF THAT THEY EXPECTED TO TAKE OVER GULF'S SHARE OF PRODUCTION AS OF THAT DATE. MOREOVER THE EMBASSY HAD BEEN APPROACHED BY A LOCAL BROKER WITH THE NEWS THAT MINISTER OF NATURAL RESOURCES VARGAS HAD ASKED HIM TO FIND A BUYER FOR 50,000 BARRELS A DAY BEGINNING IN JANUARY, WITH THE USUAL "COMMISSION" FOR VARGAS. I ALSO HAD HEARD THAT THE INTER-MINISTERIAL COMMISSION HAD PREPARED A DRAFT OF AN "ACTA" WHICH WOULD HAVE THE EFFECT OF TURNING OVER GULF'S OIL TO CEPE ON JANUARY 1. I UNDERSTOOD THAT SUCH A MEASURE NEEDED ONLY THE MINISTER'S SIGNATURE.

2. ADMIRAL POVEDA STATED THAT THE INTER-MINISTERIAL COM-
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MISSION HAD IN FACT PREPARED A DRAFT DECREE, NOT AN ACTA, WHICH THAT SAME DAY HAD BEEN SUBMITTED TO THE SUPREME COUNCIL, TOGETHER WITH THE COMMISSION'S REPORT. THE COUNCIL WAS SCHEDULED TO REVIEW THE REPORT AND THE DECREE DURING THE NEXT TWO DAYS. HOWEVER, I SHOULD NOT WORRY, BECAUSE THE COUNCIL WOULD NOT ISSUE SUCH A DECREE ON THE

GROUND'S THAT THE CONTENTS HAD NOT BEEN WORKED OUT WITH GULF.

3. I SAID THAT THIS WAS REASSURING, HOWEVER, I POINTED OUT THAT THE MINISTER OF NATURAL RESOURCES MIGHT WELL LEAK THE DRAFT DECREE IN ORDER TO PUT INCREASED PRESSURE ON THE COUNCIL TO TAKE SOME ACTION BY THE END OF THE YEAR. POVEDA REPLIED THAT IF THE DECREE WERE LEAKED IT WOULDN'T REALLY MATTER; IN FACT IT WOULD HELP TO DEMONSTRATE TO THE PUBLIC THAT THE BASIC WORK OF EVALUATING GULF'S ASSETS HAD NOT YET BEEN COMPLETED.

4. POVEDA SAID THAT THE COUNCIL INTENDED TO REPLACE VARGAS ALONG WITH SEVERAL OTHER CABINET MEMBERS IN THE VERY NEAR FUTURE. HE THOUGHT THAT THEY MIGHT DO IT AS EARLY AS THE END OF THIS WEEK.

5. I THEN RAISED WITH HIM THE PROBLEM THAT GULF WAS HAVING PROBLEMS IN FINDING BUYERS FOR ITS CRUDE AFTER DECEMBER 31 IN VIEW OF THE UNCERTAINTY AS TO WHO WOULD CLAIM OWNERSHIP OF THE OIL, GULF OR CEPE. I SAID THAT GULF HAD ASKED THE MINISTER OF FINANCE FOR A WRITTEN CONFIRMATION THAT IT COULD CONTINUE TO SHIP THE OIL IN THE NEW YEAR. I SAID THAT WHILE A WRITTEN REPLY MIGHT NOT BE PRUDENT, I DID THINK THAT SOME PUBLIC CLARIFICATION REGARDING THE DECEMBER 31 DEADLINE, WHICH WAS STILL BEING TALKED ABOUT IN THE PRESS, WAS NEEDED IN ORDER TO REASSURE GULF'S CLIENTS. POVEDA SAID THAT THERE WOULD BE SOME CLARIFYING STATEMENT BEFORE THE END OF THE YEAR TO THE EFFECT THAT THE NEGOTIATIONS HAD NOT REACHED A CONCLUSION AND THAT THE STATUS QUO WOULD CONTINUE UNTIL THEY HAD.
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6. COMMENT: GIVEN VARGAS' SLIPPERINESS, AND HIS OBVIOUS DESIRE TO MAKE SOME MORE MONEY BEFORE HE GETS THE AX, IT WOULDN'T SURPRISE ME IF THERE WERE FURTHER PROBLEMS ON THIS ISSUE BETWEEN NOW AND DECEMBER 31. ON THE OTHER HAND, I HAVE COME TO HAVE CONFIDENCE IN POVEDA'S ABILITY TO KEEP THINGS UNDER CONTROL AND THEREFORE I AM NOT UNDULY WORRIED ABOUT COL. VARGAS' MACHINATIONS. REGARDING THE QUESTION OF PARA. 9 OF REFTEL (B), I DO NOT SEE ANY NEED FOR A WRITTEN INTERIM AGREEMENT PROVIDED THAT THE GOE IS WILLING TO ALLOW GULF TO CONTINUE OPERATING AND EXPORTING ITS SHARE OF THE OIL UNTIL NEGOTIATIONS HAVE BEEN SATISFACTORILY CONCLUDED. WHILE DECEMBER 31 WAS AGREED UPON BY BOTH PARTIES AS THE TARGET DATE FOR CONCLUSION OF NEGOTIATIONS AND A TURNOVER, IT APPEARS TO ME TO HAVE NO INTRINSIC IMPORTANCE IN ITSELF, AND IF BOTH PARTIES ARE AGREEABLE TO CONTINUE NEGOTIATIONS BEYOND THAT DATE, I SEE NO REASON WHY THE STATUS QUO SHOULD NOT CONTINUE.

7. I AM CONVEYING THE ABOVE INFORMATION TO THE LOCAL
GULF MANAGER.
BLOOMFIELD

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NNN

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